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United Nations Joint Staff Pension Fund

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the United Nations Joint Staff Pension Board (A/71/9), the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase the diversification of the Fund (A/C.5/71/2), the report of the Board of Auditors on the financial report and audited financial statements of the Fund for 2015 (A/71/5/Add.16) and the report of the Secretary of the Pension Board on the implementation of recommendations of the Board of Auditors (A/71/397). In addition, the Committee had before it a note by the Secretary-General on the membership of the Investments Committee.

2. During its consideration of those reports and the note, the Advisory Committee met with the Chairman of the Pension Board, the Chief Executive Officer of the Fund[1] and the Representative of the Secretary-General for the investment of the assets of the Fund, who provided additional information and clarification, concluding with written responses received on 18 November 2016.

3. The summary of the operations of the Fund for the biennium 2014-2015, contained in the report of the Pension Board, indicates that the number of participants in the Fund increased from 120,294 to 126,892, or by 5.5 per cent, that the number of periodic benefits in award increased from 69,980 to 71,474, or by 2.1 per cent, and that those benefits were provided to retirees and other beneficiaries of the 23 member organizations of the Fund in 190 countries and in 15 different currencies (A/71/9, paras. 15, 17 and 18, and annex VII).

[1] The Secretary of the Pension Board is also the Chief Executive Officer of the Fund.

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II. Governance and administration

Delays in benefit payments

4. In its report, the Board of Auditors identified problems resulting in delays affecting the two main phases of the benefit payment process. In the first phase, the member organization, with inputs from the staff member, collects and completes the relevant documents and sends them to the Fund.[2] In the second phase, the Fund processes the entitlement claim on the basis of the documentation submitted by the member organization and ensures payment of the benefit to the beneficiary (see A/71/5/Add.16, paras. 106-123). During its audit, the Board of Auditors identified a sample of 4,511 cases that had been processed through these two phases in 2015 or earlier (98 deaths in service, 1,450 retirements and 2,963 withdrawals) and found that:

(a) Only 2 per cent of death-in-service cases, 26 per cent of retirement cases and 5 per cent of withdrawal cases were submitted by the member organizations within a period of one month following the date of separation;

(b) Only 14 per cent of death-in-service cases; 8 per cent of retirement cases and 8 per cent of withdrawal cases were processed by the Fund within the benchmark of 15 days following the receipt of the mandatory documents by the Fund.

5. The Advisory Committee notes that in its previous report the Board of Auditors had already identified delays in processing claims and had recommended that the Fund ensure adherence to the stipulated benchmark for the processing of benefits through improvements in efficiencies and the use of information technology (A/70/325, annex VI, para. 53). The cumulative delays in both phases affect the beneficiaries, whether they are families of deceased staff members or former staff members and their families. The Board of Auditors underlined, in its previous report, that the primary function of the Fund is to ensure that benefits are paid to participants on time (ibid.).

6. **The Advisory Committee recalls that the General Assembly, in its resolution 70/248, noted with concern the delays in the receipt of payments by some new beneficiaries and retirees of the Fund and stressed the need for the Pension Board to take appropriate steps to ensure that the Fund addresses the causes of such delays, which put former staff members and retirees as well as their families in stressful and vulnerable situations. The Committee urges the member organizations and the Fund to coordinate their efforts to resolve this situation.**

7. To reduce the delays in the first phase of the process (the submission of complete and accurate documents by member organizations), the Fund is proposing to conduct, with the support of an external consultant and in coordination with the member organizations, an end-to-end review (from separation to entitlement and

[2] The member organizations are required to submit three mandatory documents to the Fund: payment instructions/election of benefit from the participant, separation notice, and separation personnel action (the latter document is only for United Nations reporting entities (A/71/5/Add.16, para. 116)).

payment) to identify streamlining opportunities in order to achieve greater efficiency and effectiveness. The Fund is also proposing to create a quality assurance team that would closely cooperate with the member organizations to improve the quality of data and separation documents submitted to the Fund (see A/71/9, paras. 306 and 307). In addition, the Advisory Committee was informed, upon enquiry, that the Fund will request member organizations to create "pension focal points" in order to expedite the processing of claims.

8. The Advisory Committee considers that the proposed remedial measures are in line with the recommendations of the Board of Auditors to convey to the member organizations the need to submit the relevant documentation to the Fund in a timely manner, and to check the status of documentation and jointly devise a mechanism to resolve the issues relating to incomplete or missing documentation from member organizations (A/71/5/Add.16, para. 123). **In the view of the Advisory Committee, both the end-to-end review and the establishment of a focal points network should have been undertaken earlier. The Committee concurs with the recommendations of the Board of Auditors and looks forward to receiving information on the implementation of the measures proposed by the Fund to reduce the delays in the submission of the documentation needed to process benefit entitlements, and on the result of the end-to-end review. The Committee expects that the proposed measures will lead to measurable results and trusts that solutions will be found and implemented rapidly.**

9. With regard to the delay in the second phase (the processing of entitlement claims by the Fund), the Pension Board indicates that during the last months of 2015 and the first months of 2016, the Fund has been experiencing a higher than normal rate of separations resulting from: (a) the downsizing in peacekeeping operations; and (b) the efforts by member organizations to send separation documentation to the Fund more expeditiously. The Pension Board further indicates that this surge in the number of separations exceeded the additional processing capacity achieved by the new Integrated Pension Administration System (IPAS) (A/71/9, paras. 264, 265 and 303). The Advisory Committee was informed, upon enquiry, that the increase in staff separations is projected to continue and is estimated at 2,000 cases in 2016 and 1,000 in 2017. The Committee was also provided with a table regarding the number of separation cases over the period 2014-2016 (see table below). This table shows that a comparison between the number of separation cases received by the Fund in 2014 and those estimated for all of 2016 reveals an increase of 42 per cent, with a more marked increase, of 57.5 per cent, in the case of entities other than the specialized agencies (a list of the reporting entities included in the Fund is presented in the annex to the present report).

Table
Number of separation cases received by the Fund: 2014-2016

			Comparison 2015 2014				*Comparison 2016 2014*	
			Increase (decrease)	*Increase (decrease)*	*2016*		*Increase (decrease)*	*Increase (decrease)*
	2014	*2015*	*Number*	*Percentage*	*Separated year to date*	*Estimate*	*Number*	*Percentage*
United Nations	6 581	8 155	1 574	23 9	7 773	10 364	3 783	57.5
Specialized agencies	3 380	3 029	(351)	(10 4)	2 834	3 779	399	11.8
Total	**9 961**	**11 184**	**1 223**	**12.3**	**10 607**	**14 143**	**4 182**	**42.0**

10. Concerning the predictability of separations, the Advisory Committee was informed, upon enquiry, that for purposes of workforce resource planning the Fund requests its member organizations to provide information on staffing levels. With regard to the Secretariat, a joint working group made up of representatives of the Fund and the Field Personnel Division of the Department of Field Support was established in January 2016 specifically to address the delays in the processing of pension benefits. The joint working group has been meeting twice a month since that time. Through this channel, the Fund receives information on planned reductions, redeployment or hiring of new staff in peacekeeping missions. The Fund is also coordinating with the Department of Field Support to arrange seminars at downsizing missions on pre-retirement matters. **In the view of the Advisory Committee, given that a review of the downsizing and closing of previous missions would have provided an indication of the time required to complete the processes, the increase in the number of separations and associated claims could have been anticipated, and the Secretariat and the Fund could have taken measures to prepare for and process the claims in a more timely manner.**

11. As regards measures to deal with the surge, the Fund also is proposing to pay partial benefits, as a provisional measure, in cases where the Fund has received all required documentation but has not processed benefits within a three-month period following their receipt. The payment would be limited to 80 per cent of the estimated monthly benefit and considered as an advance. The Pension Board noted in its report that this measure would entail additional work for the Fund and might require additional resources (A/71/9, paras. 314-317). The Advisory Committee notes that the provisional payment would require reconciling the provisional payment with the actual amount of the payable benefit. **While recognizing that the delays in the payment of benefits may put the beneficiaries and their families in a financially vulnerable situation, the Advisory Committee considers that further information on the implications of implementing provisional payment of benefits should be provided to the General Assembly as soon as possible, thus enabling it to make an informed decision on this matter.**

12. The Fund also proposes to create a task force to focus on the less complex initial entitlement cases. The Pension Board indicates that this task force would be led by a manager, to be redeployed from existing resources, and would operate in New York and Geneva for 17 months, over which time the Fund would evaluate the need for more permanent requirements in the next budget cycle. The task force

would also allow for the creation of the proposed quality assurance team (see para. 7 above). The Fund considers the proposed task force as part of a new approach to manage the surge in separations by creating additional temporary capacity to process cases, prevent delays related to incomplete and inaccurate documentation and implement a communications strategy to inform and engage stakeholders (A/71/9, paras. 304-306; see also para. 14 below).

13. With regard to the communication strategy, the Advisory Committee was informed, upon enquiry, that the Pension Board has recognized the importance of improving and broadening the Fund's communications efforts, especially considering the current size of the Fund, the geographical dispersion of its population and the complexity of its operations. According to the Fund, an effective communications outreach with customers would lead to an improved understanding of the Fund's mandate and services and help the Fund anticipate and plan for future requirements. In addition, a comprehensive communications policy with all constituents would ensure full transparency and allow the participants and beneficiaries to make fully informed decisions. The Committee was further informed, upon enquiry, that a temporary position of Senior Public Information Officer at the P-5 level had been advertised in March 2016 and filled in June 2016. The role of the Information Officer is to implement a communications strategy, build stakeholder relations and ensure a strategic focus on the customer experience. The incumbent has already been instrumental in establishing regular information-sharing with the Fund's constituents through newsletters and fact sheets, as well as in setting up the new member self-service modules and taking the lead in the revamping of the Fund's website (see para. 14 (a) below).

Staffing requirements

14. The Pension Board proposes to create the following 20 temporary positions for the above-mentioned task force:

(a) A Senior Communication Officer (P-5) in the Office of the Chief Executive Officer would implement a communications strategy, build stakeholder relations and ensure a strategic focus on customer experience (A/71/9, para. 307). Upon enquiry, the Advisory Committee was informed that the incumbent would conceptualize, design and execute an overall public information and communication strategy, as well as the programme and activities of the Fund; serve as lead spokesperson; and develop strategic partnerships with key constituencies. The incumbent would also prepare or oversee the preparation of information communications products, including revamping and modernizing the Fund's website. The Committee recalls that the Pension Board had proposed, in its previous report, the establishment of a post of Chief, Client Communication and Liaison (P-5) in Geneva, as part of an effort to strengthen the operations of the Geneva Office (A/70/325, table 6). This post was subsequently approved by the General Assembly in its resolution 70/248. **In the view of the Advisory Committee, the Chief, Client Communication and Liaison, should be able to set up a communication strategy with the clients of the Fund. In addition, the Committee notes that the newly proposed position of Senior Communication Officer was initially requested as a regular post, but the Pension Board approved its creation on a temporary basis and requested the Fund to present a**

complete justification for this post/position accompanied with corresponding organizational chart at its sixty-fourth session (A/71/9, para. 313). The Committee considers that insufficient justification was presented for the creation of a Senior Communication Officer (P-5) position and therefore recommends against the approval of this temporary position; any related non-post resources should be adjusted accordingly.

(b) A Senior Management Analyst (P-5) in the office of the Chief Executive Officer would chair the change advisory board, which was created in connection with the implementation of the IPAS project to consider, inter alia, system performance and further enhancements as well as to discuss and prioritize any requests for changes in the system in a comprehensive manner. The Senior Management Analyst would also facilitate a coordinated approach both internally and with the pension focal points in the different member organizations and ensure continuous improvement in operations in the most efficient and coordinated manner. The incumbent would participate in the proposed end-to-end review and establish and monitor performance indicators for the different stages of the separation-to-benefit process (A/71/9, para. 307). Upon enquiry, the Advisory Committee was informed that the Senior Management Analyst would also analyse and propose additional process enhancements, streamline transactional processes, seek efficiencies and develop coordinated policy and procedural guidance. **The Advisory Committee notes that the newly proposed position of Senior Management Analyst was initially requested as a regular post, but the Pension Board only approved its creation on a temporary basis and requested the Fund to present a complete justification for this post/position accompanied with corresponding organizational chart at its sixty-fourth session (A/71/9, para. 313). The Committee considers that insufficient justification was presented for the creation of the Senior Management Analyst (P-5) temporary position and therefore recommends against this temporary position; any related non-post resources should be adjusted accordingly.**

(c) In addition, 18 temporary positions are proposed, including 4 temporary positions for Benefits Officers (P-3) (2 in New York and 2 in Geneva) and 14 General Service positions for Benefits Assistants (12 in New York and 2 in Geneva). The priority task of the proposed positions would be to deal with the increased number of separations. They would also staff the quality assurance team and a survivor's benefit/disability team in New York and strengthen the existing benefit/disability team in Geneva. The incumbents would also help to organize an increased number of pre-retirement seminars held by the Fund, implement a pilot client services call centre and provide support to field missions (A/71/9, para. 310). The Advisory Committee recalls that the General Assembly, in its resolution 70/248, approved the establishment of a total of 7 posts of Benefits Officers and Benefits Assistants to complement the pre-existing workforce of the Fund. The Committee was informed, upon enquiry, that 24 of the 185 posts of the Fund were vacant as of 7 October 2016, representing a vacancy rate of almost 13 per cent. Of the 24 vacant posts, 6 posts are directly dedicated to benefit processing, including the Chief (P-5), and the Deputy Chiefs (P-4, in both Geneva and New York) of the Pension Entitlements Section, as well as 3 posts of Benefits Assistant (General Service) in New York. **In the view of the Advisory Committee, the Fund should focus on expeditiously filling the vacant posts and thus be in a better position to address**

the additional workload caused by surges. The Committee considers that the estimated increase in the number of separation cases could be managed with a smaller number of positions than requested. The Committee recommends approval of the following 9 temporary positions: 1 Benefits Officer (P-3) and 6 Benefits Assistants (General Service), in New York, as well as 1 Benefits Officer, (P-3), and 1 Benefits Assistant (General Service) in Geneva. The Committee recommends against the remaining 9 positions; any related non-post resources should be adjusted accordingly.

15. The Pension Board recommends approval of total additional resources relating to the biennium 2016-2017, in the amount of $3,228,700. **The recommendations of the Advisory Committee in paragraph 14 above would entail a reduction of $1,845,000 in the proposal.**

Medical matters

16. The Pension Board recommends approval of amendments to article 41 of the Fund's Regulations proposing that the title of article 41 be changed from "Medical examination" to "Medical evaluation" (see A/71/9, paras. 222-231, and annex XIII). Moreover, in accordance with the practice of the Fund, under the proposed article 41 (a), every staff member who is determined to be medically fit for employment by a member organization would be accepted as medically fit for participation in the Fund. However, under the amended article 41 (b), "a participant who knowingly fails to disclose relevant medical information or who falsifies information, shall not be entitled to receive a disability benefit under article 33 (a) unless the condition giving rise to the disability is determined medically to be unrelated to the information that was not disclosed or was falsified". The Advisory Committee questioned whether the proposed amendments might create an obligation to disclose medical conditions at the time of recruitment, which might have long-term consequences on relations between the Fund and some of its participants. **The Advisory Committee considers that a thorough analysis of the practical aspects of the implementation of the amendments and their long-term consequences is needed. Consequently, the Committee considers that additional information should be provided to the General Assembly on this matter. It should indicate, in particular, if the proposed amendments reflect the best practice of similar pension funds, how the amendments will be implemented and what will be the impact of the amendments on the operations of the Fund.**

Actuarial matters

17. In accordance with article 21 of the Regulations of the Fund, the Committee of Actuaries presented to the Pension Board its conclusions on the actuarial valuation of the Fund as at 31 December 2015. The conclusions revealed a surplus after three consecutive bienniums of contribution rate deficiency, the surplus being linked to the decision to change the normal retirement age from age 62 to age 65 for new staff as of 1 January 2014. The projected assets of the Fund exceeded the projected liabilities by $562.1 million (or 0.16 per cent of pensionable remuneration) as at 31 December 2015 (A/71/9, paras. 35 and 36). The Committee of Actuaries warned, however, that if investments do not report long-term results at or above the actuarial assumption of 3.5 per cent annual real rate of return over time, the deficit trend

would return (A/71/9, para. 40). The Board took note of the favourable valuation results reporting a surplus of 0.16 per cent and reiterated the importance of continuing to earn the necessary 3.5 per cent annual real rate of return both on a long-term basis for the future solvency of the Fund, as well as on a short-term basis so as to not reverse the upward trend in valuation results. **The Advisory Committee welcomes the surplus and trusts that all efforts will be made to ensure that the Fund meets its long-term target of an annualized real rate of return of 3.5 per cent.**

Integrated Pension Administration System

18. The Pension Board took note of the successful implementation of IPAS, which became operational on 3 August 2015. The Board of Auditors noted in its report that IPAS is a complex and large-scale operational and technological initiative. The estimated cost of the project was $26.2 million as at 2015, representing an increase of approximately $3.5 million over the approved amount of $22.7 million. The auditors identified five main issues and recommended that the Fund focus on two of them: (a) resolving the issues of data migration; and (b) framing key performance indicators in accordance with functional requirements for assessing the accuracy and timeliness of IPAS outcomes (A/71/5/Add.16, para. 99). **The Advisory Committee concurs with the recommendations of the Board of Auditors relating to data migration and key performance indicators and trusts that the corrective measures will be implemented rapidly.**

Evaluation of the Chief Executive Officer

19. The appointment of the Chief Executive Officer is governed by article 7 (a) of the Regulations of the Fund, which specifies that the Chief Executive Officer and the Deputy Chief Executive Officer shall be appointed by the Secretary-General on the recommendation of the Pension Board. Section F of the Fund's rules of procedure further clarifies that they shall be appointed for an initial term of up to five years and that they may be reappointed once. In the report on its sixty-third session, the Pension Board took note of the evaluation of the Chief Executive Officer of the Fund and approved the conclusions and recommendations of the Evaluation Panel, including that his overall performance has been effective and successful, and that reappointing the current Chief Executive Officer would provide for the critical continuity of programmes already under way and the required associated institutional memory. The term of the current Chief Executive Officer expires at the end of 2017, which means that at its next session, in July 2017, the Pension Board is expected to make a recommendation to the Secretary-General on this matter.

III. Investments of the Fund

Investments Committee

20. Article 20 of the Regulations of the Fund stipulates that the members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee, subject to confirmation by the General Assembly. Accordingly, the Secretary-General

conveyed to the Board and to the Committee the names of eight regular members for reappointment for a three-year term and one regular member for appointment for a three-year term.[1] The Committee was informed, upon enquiry, that significant efforts have been made, and will continue to be made, to identify a potential member from Eastern Europe.

Performance of the Fund

21. The Fund's long-term performance objective is to achieve a 3.5 per cent annualized real rate of return, as adjusted by the United States consumer price index. In its report on the financial statements of the Fund for 2014, the Board of Auditors observed that the Fund, with a real rate of return of 2.4 per cent, had underperformed its 3.5 per cent real rate of return objective in 2014 and had shown underperformance in the five-year period ended in December 2014 (see A/70/325 and related report of the Advisory Committee A/70/7/Add.6). In its current report, the Board of Auditors points out that the Fund had an inflation-adjusted negative real return of 1.7 per cent in 2015 (A/71/5/Add.16).

22. The Board of Auditors further indicates that investment income fell by $5.26 billion (76 per cent) in 2014 compared with 2013 and by a further $2.12 billion (127.6 per cent) in 2015 compared with 2014, thus adversely affecting the performance of the Fund over the short-term period and potentially having a negative impact on the long-term objective of being fully funded.

23. The financial statements of the Fund for 2015 show that, owing to depreciation in fair value of investment ($18 million) and foreign currency losses ($1.5 billion), the net assets available for benefits amounted to $52.2 billion compared with $52.8 billion at the end of 2014, representing a decrease of $616 million, or approximately 1.2 per cent (see A/71/9, annex VII).

24. However, the Secretary-General, in his report on the investments of the Fund, indicates that, over the biennium 2014-2015, the market value of assets has risen from $51.3 billion to $52.1 billion, representing an increase of $748 million, or approximately 1.5 per cent (A/C.5/71/2, para. 5). The Advisory Committee was informed that in the latest period, as of 23 September 2016, the market value of assets had increased to $55 billion. It should be noted that investment performance for the Fund is reported both in real and nominal terms and that the real rate of return is equal to the nominal rate of return minus inflation (ibid.).

25. The Secretary-General's report indicates that the main drivers of underperformance in the biennium 2014-2015 were a relatively short duration position in fixed income and the strengthening of the United States dollar over the two-year period along with negative stock selection in global equities in 2014 (A/C.5/71/2, para. 8).

Foreign exchange losses

26. During the biennium 2014-2015, foreign exchange losses amounted to $3.4 billion ($1.9 billion in 2014 and almost $1.5 billion in 2015). The Advisory

[1] The Advisory Committee was informed that a member of the Investments Committee resigned in November 2016. Efforts are under way to identify a suitable replacement.

Committee was informed, upon enquiry, that these losses were due to the strengthening of the United States dollar and the global nature of the Fund's investments: investment performance is reported in United States dollars while investments are made in local currency.

27. The Pension Board noted in its report that not all the foreign exchange losses are realized (A/71/9, para. 76). In this regard, the Advisory Committee was informed, upon enquiry, that out of a total of $1.489 billion in foreign currency losses recorded in the financial statements for 2015, only $748 million, or 50 per cent, were actually realized, while $741 million of losses remained unrealized. Losses are realized only when assets invested in foreign currencies are liquidated. The Committee was further informed that, in 2015, certain European stocks were sold at a net profit, but the currency component of the transaction was booked at a loss on the financial statements.

28. In its report on the financial statements of the Fund for 2014, the Board of Auditors recommended that the Pension Fund explore alternatives in order to mitigate the foreign exchange losses, including a detailed cost benefit study for a suitable hedging strategy (A/70/325, annex VI, para. 35). Upon enquiry, the Advisory Committee was informed that, in 2015, an external firm conducted a study that included a cost benefit analysis and the Investment Management Division consulted with the Investments Committee on this matter in 2015 as well. As mentioned in the report of the Pension Board, the Representative of the Secretary-General recommended not utilizing a hedging strategy, noting that such action would lock in the unrealized losses and would prevent the Fund from benefitting when the fluctuation cycle of currencies no longer favour the United States dollar. In her view, currency loss/gain is a zero-sum game over longer periods of time (A/71/9, paras. 76 and 77). The Committee was further informed upon enquiry, that hedging can be costly and requires the use of derivatives. However, in response to the recommendation of the Board of Auditors, the Representative of the Secretary-General indicated that the Investment Management Division is making arrangements to conduct a formal analysis of this issue.

29. **The Advisory Committee recalls that the General Assembly, in its resolution 70/248, requested the Secretary-General to make all efforts to improve the Fund's investments performance. While acknowledging the negative impact of currency fluctuations in 2015, the Committee notes that during that year the Fund did not meet its long-term target of an annualized real rate of return of 3.5 per cent and trusts that efforts will be made to meet this objective.**

Vacancies

30. The Board of Auditors noted in its report that the key posts of Director of the Investment Management Division, Deputy Director for Investments, Deputy Director for Risk and Compliance and Chief Operating Officer were vacant in 2015 and that the general vacancy rate of professional posts was higher than 25 per cent. The Auditors recommended filling the vacancies at the senior levels at the earliest opportunity and the drawing-up of a succession plan (A/71/5/Add.16, paras. 20-24). The Advisory Committee was informed, upon enquiry, that the post of Director (D-2), which had been vacant since March 2015, was filled in June 2016, and that

recruitment for the other senior posts was ongoing: the post of Chief Operating Officer (D-1), which has been vacant since December 2013, was advertised in July 2016 and filled on a temporary basis; the post of Deputy Director, Risk and Compliance (D-1), which has been vacant since October 2015, was sent for classification in February 2016; and the post of Deputy Director (investment private markets) (D-1), which has been vacant since December 2013, was advertised in July 2016 as Deputy Director (fixed income) (see para. 32 below).

31. In its current report, the Board of Auditors observed that long pending vacancies at the senior level have an adverse impact on the Fund's performance and its investment strategy, leading to the centralization of responsibility and an overburdening of the existing professionals that may compromise the segregation of duties and result in inefficiencies (A/71/5/Add.16, para. 26). The Advisory Committee was informed by the Representative of the Secretary-General, upon enquiry as to a possible link between senior vacancies and performance, that it is not possible to quantify the correlation between vacant posts and performance.

32. On a related matter, the Advisory Committee was informed, upon enquiry, that the post of Deputy Director (fixed income) (see para. 30 above), had been approved by the General Assembly in 2013 as Deputy Director (investment private markets) (D-1), but subsequently reassigned to fixed income. The rationale for the change was that private markets, where the post was initially assigned, covers only 10 per cent of the Fund's assets, or $5.2 billion, while fixed income represents approximately 25 per cent of the Fund's assets, or $13 billion. **The Advisory Committee notes with concern that this reassignment was not proposed to the Pension Board.**

33. **The Advisory Committee reiterates its concern regarding the high number of vacant posts in the Investment Management Division of the Fund, urges the Fund to fill all vacant posts expeditiously and reiterates that, in its view, posts that have been vacant for two years or longer should be rejustified or proposed for abolishment (see A/70/7/Add.6, para. 10).**

Investment diversification

34. In terms of diversification by asset class, the Secretary-General indicates, in his report on the investments of the Fund, that the strategic asset allocation is the following: 58 per cent for equities, 26.5 per cent for fixed income, 9 per cent for real assets, 5 per cent for alternative strategies and 1.5 per cent for cash and short-terms. The Secretary-General also indicates that the Fund is in the process of gradually building its exposure to alternative investments and real assets to further enhance its risk-return profile. Most of this growth will be in private equity and real estate (A/C.5/71/2, para. 44).

35. In terms of geographical diversification, the Secretary-General indicates that the Fund has investments in over 100 countries. The proportion of the total Fund investments in North America increased to 53.9 per cent in December 2015 from 50.1 per cent in January 2014; investments in Europe decreased to 22.7 per cent from 24.4 per cent, while the portion of investments in Asia and the Pacific decreased slightly to 14.8 per cent from 14.9 per cent. The Secretary-General also indicates that, as at 31 December 2015, direct and indirect investments in

developing countries amounted to $6.14 billion, an increase of approximately 10 per cent from $5.58 billion on 1 January 2014 (A/C.5/71/2, paras. 46 and 48 and table 3). **The Advisory Committee welcomes the efforts to enhance the Fund's investment profile and recalls that the General Assembly, in its resolution 70/248, requested the Secretary-General to continue diversifying its investments between developed, developing and emerging markets, wherever this serves the interests of the participants and the beneficiaries of the Fund, and to ensure that decisions concerning the investments of the Fund in any country are implemented prudently, taking fully into account the four main criteria for investments, namely safety, profitability, liquidity and convertibility, under volatile market conditions.**

36. The Secretary-General further indicates that the Fund made environmental, social and governance investments (see A/C.5/71/2, sect. VII). Upon enquiry regarding environmental, social and governance investments, the Advisory Committee was informed that environmental investments were initiated in 2008 with the purchase of green bonds. As at 31 December 2015, the Fund's investments in green bonds and green equity amounted to $105 million and $184.2 million, respectively. According to the Secretary-General, a green bond is an investment vehicle whose proceeds are used to fund environmentally friendly projects, while green equities are traditional investment vehicles (such as stocks and exchange-traded funds) with an environmental focus. With regard to the social and governance investments, the Committee was only informed that the Fund has restrictions on investments in tobacco and armament securities. **The Advisory Committee trusts that the Secretary-General will provide the General Assembly with information on the environmental, social and governance investments of the Fund and that they will be reported on regularly.**

Anti-fraud and anti-corruption policy

37. In accordance with the recommendation of the General Assembly in its resolution 70/248, the Investment Management Division of the Fund has developed an anti-fraud and anti-corruption policy. The draft policy was presented to the Pension Board for information after being reviewed by the Office of Legal Affairs and the Department of Management of the Secretariat (A/71/9, para. 208). Upon enquiry, the Advisory Committee was informed that the draft policy had also been commented on by the Ethics Office, the Office of Internal Oversight Services (OIOS) and the Audit Committee of the Pension Fund. The new policy, which was issued on 1 November 2016, applies to all staff of the Investment Management Division and supplements the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat (ST/IC/2016/25).[4] The policy stipulates that any fraud,

[4] The Anti-Fraud and Anti-Corruption Policy applies to any irregularity, or suspected irregularity, involving staff of the Investment Management Division as well as consultants, advisers, vendors, contractors, outside agencies doing business with the Division, staff of such agencies and/or any other parties with a business relationship with the Division.
The Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat applies to staff members of the United Nations Secretariat and other personnel of the United Nations Secretariat, including officials other than Secretariat officials and experts on mission, individual contractors, consultants, interns, gratis personnel, participants in advisory meetings, "when actually employed" personnel and United Nations Volunteers.

corruption or irregularity that is detected or suspected must be reported immediately to the Chief Compliance Officer of the Investment Management Division, who should inform the Representative of the Secretary-General and conduct a fact-finding assessment to determine whether or not the matter merits referral to the OIOS Investigative Division. Staff of the Investment Management Division also have the discretion to report matters directly to OIOS. **The Advisory Committee welcomes the new anti-fraud and anti-corruption policy of the Fund, which supplements the Anti-Fraud and Anti-Corruption Framework of the Secretariat, the General Assembly resolutions against fraud and corruption and the United Nations Convention against Corruption.**

Performance of the Representative of the Secretary-General

38. The General Assembly, in its resolution 68/247 B, requested the Secretary-General, in the context of future reports on the investments of the Fund, to provide information on the performance of his representative in discharging his or her responsibilities. **The Advisory Committee notes that the present report of the Secretary-General on the investments of the Fund does not contain information on this matter. The Committee looks forward to receiving this information in future reports on the investments of the Fund (see A/69/528, para. 18).**

IV. Audit

Submission of the report of the Board of Auditors

39. The Advisory Committee recalls that, in the context of its previous report, it had considered a note from the Board of Auditors explaining its position regarding the procedure for the submission of its annual report on the financial statements of the Fund to the General Assembly. In the note, the Board of Auditors indicated that unlike its other reports, which are presented directly and separately to the Assembly through the Advisory Committee, its report on the financial statements of the Fund is annexed to the report of the Pension Board to the Assembly. The Board of Auditors also indicated that during its review of the practice conducted during its annual audit of the Fund's financial statements it had concluded that the practice was neither in consonance with the founding resolution of the Board of Auditors nor with the resolutions relating to the Pension Fund or its regulations and rules. Therefore, the position of the Board of Auditors was that its report on the Pension Fund should be presented directly and separately to the Assembly through the Advisory Committee, as is the case with its reports on other United Nations entities under its audit jurisdiction. The Advisory Committee saw merit in the position taken by the Board of Auditors (A/70/7/Add.6, paras. 44 and 46).

40. The General Assembly, in its resolution 70/248, stressed that the report of the Board of Auditors on the Fund should be submitted separately to the Assembly, as is the case with other United Nations entities, and decided that a copy should continue to be annexed to the report of the Pension Board. The Assembly also invited the Pension Board, in consultation with the Board of Auditors, to make arrangements that would enable the Pension Board to consider, at its annual meeting, the final financial report and audited financial statements of the Board of Auditors on the Fund and decided to continue to consider the report of the Board of Auditors on the Fund in the context of the report of the Pension Board.

41. However, at its sixty-third session, in July 2016, the Pension Board could not consider the report of the Board of Auditors on the financial statements of the Fund for 2015 (A/71/5/Add.16), which was only finalized in September 2016. The Advisory Committee was informed, upon enquiry, that the Pension Board had approved a new modality at its sixty-third session, which will enable the consideration of the report of the Board of Auditors for 2016 at the next Pension Board's session, as requested by the Assembly. **The Advisory Committee welcomes the modality allowing the Pension Board to consider, at its next and subsequent sessions, the report of the Board of Auditors on the financial statements of the Fund. In addition, this report will be presented separately to the General Assembly, in the context of its consideration of the report of the Pension Board.**

Implementation of the recommendations of the Board of Auditors

42. The report on the implementation of the recommendations of the Board of Auditors shows that five recommendations to the secretariat of the Fund, contained in past reports of the Board of Auditors, have been accepted but have not been fully implemented. Those recommendations include, in particular, the need for closer collaboration of member organizations and the actuarial agency (see A/71/397, paras. 41, 43, 45, 53, 55). The report also shows that the six recommendations to the secretariat of the Fund contained in the present report of the Board of Auditors (A/71/5/Add.16) have been accepted and their implementation is in progress (see A/71/397, paras. 25, 27, 29, 31, 33 and 35).

43. With regard to the recommendations to be implemented by the Investment Management Division, the report on the implementation of the recommendations of the Board of Auditors shows that four recommendations contained in the report of the Board of Auditors for 2014 still remain to be implemented, in particular the recommendation that the Fund explore alternatives to mitigate the foreign exchanges losses, including a detailed cost benefit study for a suitable hedging strategy. In addition, 11 recommendations contained in the report of the Board for 2015 are considered to be "in progress" in terms of implementation.

44. **The Advisory Committee stresses the importance for the Fund to implement all recommendations of the Board of Auditors expeditiously.**

V. Conclusion

45. A summary of the matters requiring the attention of and decisions by the General Assembly is provided in a draft resolution proposed for adoption by the Assembly annexed to the report of the Pension Board (A/71/9, annex XVII). According to the notation in the report of the Pension Board, the draft resolution covers those matters discussed in the report of the Pension Board that require action by the Assembly, as well as other matters in the report that the Assembly may wish to note.

46. **Subject to its comments and recommendations above, the Advisory Committee recommends that the General Assembly take note of the report of the United Nations Joint Staff Pension Board and approve the proposals contained therein.**

Annex

Member organizations of the United Nations Joint Staff Pension Fund

The member organizations of the United Nations Joint Staff Pension Fund are the United Nations* and the following organizations:

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and Restoration of Cultural Property

International Civil Aviation Organization

International Criminal Court

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Organization for Migration

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

Inter-Parliamentary Union

Special Tribunal for Lebanon

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

* United Nations includes United Nations Headquarters, regional offices and all funds and programmes.

United Nations

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Third annual progress report on the strategic heritage plan of the United Nations Office at Geneva

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions considered an advance copy of the report of the Secretary-General on the strategic heritage plan of the United Nations Office at Geneva (A/71/403 and Corr.1). During its consideration of the report, the Advisory Committee met representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 3 November 2016.

2. The report of the Secretary-General, submitted pursuant to section V of General Assembly resolution 68/247 A, section III of Assembly resolution 69/262 and section X of Assembly resolution 70/248 A, addresses the requests made by the Assembly in its resolutions and the comments and recommendations made by the Advisory Committee in its previous report (A/70/7/Add.8). The Secretary-General provides updated information and proposals on significant aspects of the implementation of the strategic heritage plan project, including the project's governance, cost plan and financing.

3. The comments and recommendations of the Advisory Committee on specific updates and proposals by the Secretary-General in respect of the project's implementation are contained in section II of the present report. Sections III and IV provide the comments and recommendations of the Committee on the project costs and financing, respectively, and section V provides the Committee's observations on other considerations. Section VI contains a summary of the Committee's overall conclusions and recommendations.

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II. Implementation of the strategic heritage plan project

4. The Advisory Committee recalls that the General Assembly, in section X of its resolution 70/248 A, approved the proposed project scope, schedule and estimated cost of the strategic heritage plan in the maximum amount of SwF 836.5 million for the period from 2014 to 2023 and therefore authorized the renovation and construction phases of the project to begin. The Secretary-General indicates that the project continues to be implemented in accordance with the previously established key project objectives and in line with the overall schedule and the approved maximum overall cost (A/71/403, paras. 21 and 23). He also indicates that his report summarizes the planning and related actions accomplished under the project to date (ibid., para. 4). **The Advisory Committee recalls that the General Assembly, in section V of its resolution 68/247 A, requested the Secretary-General to submit annual progress reports on the implementation of the strategic heritage plan and considers that those reports should clearly indicate the start and end dates of the period for which progress is reported.**

A. Project governance and oversight

5. Pursuant to section X, paragraphs 7, 8 and 11, of General Assembly resolution 70/248 A, the Secretary-General provides updated information on the project governance, including the roles and responsibilities of the Steering Committee and the Advisory Board in the overall governance framework and the role of a risk management firm in providing independent project assurance (ibid., paras. 7-15). The Advisory Committee enquired as to the actual contributions made thus far by these components of the project governance framework.

6. The Advisory Committee was informed that the Advisory Board had made recommendations to the project owner in respect of matters relating to project financing and had endorsed the views of the Secretary-General regarding the valorization of land owned or occupied by the United Nations Office at Geneva (UNOG) and regarding the utilization of any income that might be generated consequent to such valorization (see also sect. IV). The Committee recalls that the Board was constituted to provide independent and impartial advice to the Director-General of UNOG as project owner on matters concerning the project's performance with regard to its budget, scope, schedule, the management of risks and the preservation of heritage, to ensure that the project would meet its objectives (see A/70/7/Add.8, para. 12). **The Advisory Committee is of the view that the role of the Advisory Board is limited to providing advice to the project owner.**

7. The Advisory Committee was also informed that, at the early, pre-construction stage of the project, the Steering Committee had emphasized the project scope and provided its views on such matters as security, space efficiency and the possibility of attracting additional tenants, and that the project team had taken those views into consideration. The Advisory Committee was informed that the independent risk management firm had identified specific risks, such as stakeholder management and potential scope increases, procurement processes and timelines, the conditions of the existing buildings and impact of unforeseen field conditions and conflicts with existing building operations. It was also informed that the identification of such

risks had led the project team to seek measures to minimize their impact, should they occur.

8. The Advisory Committee recalls that the General Assembly, in section III of its resolution 69/262, stressed the importance of ensuring effective governance and oversight with regard to the implementation of the strategic heritage plan at the earliest stages of the project and emphasized the importance of ensuring integrated and independent project assurance. **In this respect, the Advisory Committee considers that the Secretary-General should, from an early stage of the project's implementation, ensure that the project governance mechanisms are effective in monitoring the project's progress in reaching its key milestones within the approved time and budget and that the independent project assurance function continues to identify new risks as they emerge, along with plans for mitigating such risks. The Committee looks forward to receiving updated information in this regard in the context of future progress reports of the Secretary-General.**

I. Dedicated project management team

9. Within the dedicated project management team, the Secretary-General proposes enhancing the capacity of the operational experts by establishing an additional position of Procurement Officer (P-4) as from 1 January 2017 (A/71/403, paras. 18 and 149 (d)). In the supplementary information provided to the Advisory Committee, it is indicated that the additional position would be funded from within the maximum approved budget for the project by reducing the duration of some of the posts in the last year of the project (see also table 3). It is also indicated in the supplementary information that the team of operational experts currently includes one position of Procurement Officer (P-4). In his report, the Secretary-General indicates that the additional position is requested to ensure that the required procurement actions are carried out in strict accordance with United Nations procurement policies and within the established timelines, given that procurement is among the highest risk areas identified for the project (A/71/403, para. 18). The Committee recalls that, pursuant to section V of General Assembly resolution 68/247 A, the Secretary-General had proposed three distinct components of the dedicated project management team: a project management team, dedicated operational experts and contracted external expertise for short-to-medium terms (see A/69/580, paras. 33-43). The Committee also recalls that, by section V of its resolution 68/247 A and section III of its resolution 69/262, the Assembly had approved 19 positions for the dedicated project management team: 14 for the team and 5 for operational experts.

10. The Advisory Committee was informed, upon enquiry, that the project entailed a substantial procurement and contracting workload relating to specific activities, such as enabling works for the new building, insurance, designing and renovation, demolition of building E, waste disposal, cleaning and site security. The Committee was also informed that, in view of the slippage in schedule with regard to procurement actions that had already occurred, the current procurement and contracting workload could not be met by the current Procurement Officer. Furthermore, the Committee was informed that the Procurement and Contract Units of UNOG lacked sufficient capacity to support the project's procurement processes. **The Advisory Committee recommends approval of the proposed establishment**

of one position of Procurement Officer (P-4), to be funded from within the maximum approved budget for the strategic heritage plan project. In this connection, the Committee reiterates that the General Assembly, in section III of its resolution 69/262, reaffirmed that the project team was a time-limited and mission-specific endeavour and that the team should therefore not be a permanent addition to the existing structure of the Organization.

2. Board of Auditors

11. The Secretary-General indicates that the recommendations contained in the report of the Board of Auditors on the strategic heritage plan (A/70/569) have either been fully implemented or are in progress and pending final implementation (A/71/403, para. 16). The Advisory Committee notes that the above-mentioned report of the Board was its initial report on the strategic heritage plan and in that connection recalls the Board's observation that that report provided an opinion only on the robustness of the processes to arrive at the budget. The Committee recalls that the Board noted that it would produce five reports, including the initial report, linked to the proposed schedule of works that would provide appropriate external oversight assurance at key decision points. The Board also noted that, in non-reporting years, it would continue to monitor the progress of the project and, if any significant issue were to arise, it would be covered in volume I of the report of the Board or some other output for the Committee and the General Assembly (A/70/569, para. 3). The Committee notes that the Board has not provided specific observations in respect of the implementation of the strategic heritage plan in its most recent report (A/71/5 (Vol. I)). **The Advisory Committee reiterates the importance of continuous assurance from the Board of Auditors as to the soundness of the governance framework, internal controls and management practices of the project to provide reasonable confidence to the Member States that the resources appropriated are used in the furtherance of the project objectives and in the best interests of the Organization (see A/70/608, para. 28).**

B. Project progress

12. The Secretary-General indicates that, during the reporting period, significant progress was made in the planning and design activities of the project and provides a brief description of the completed and ongoing activities. According to the Secretary-General, the detailed design for the first phase of the project (construction of the new permanent building) was completed in the first quarter of 2016, as planned. He provides architectural and technical details regarding the construction of that building and the renovation work for the existing buildings[1] A and B1. He also indicates that, in accordance with construction industry practice, at the end of the design stage, more technical aspects of the design still required further development, including designs by specialists (A/71/403, paras. 22-26).

13. The Secretary-General indicates that, upon the completion of the detailed design, work relating to the technical design and the preparation for tender documentation began early in 2016, of which 50 per cent was completed in June

[1] The Palais des Nations comprises a historic building complex, which includes buildings A to E and S.

2016, in conformity with the predefined contractual milestone. He also indicates that, in parallel to the technical design phase, a voluntary construction permit application was submitted to the local cantonal authorities, and confirmation of voluntary compliance with Swiss building codes and standards was expected to be received for the new building before the issuance of the tender for the new construction (ibid., paras. 27-28).

1. Flexible workplace strategies and space efficiency

14. Pursuant to section X, paragraphs 13 and 15, of General Assembly resolution 70/248 A, the Secretary-General provides updated plans regarding the study of space efficiency gains and implementation of flexible workplace strategies in the new and existing buildings. He indicates, among other things, that, to test a flexible workplace environment, a pilot programme will be designed, to be used both as a mock-up for technical requirements and as a change management tool for stakeholder communication and feedback. He also indicates that, to accurately forecast potential space efficiency gains, the project team will commission a study on the utilization of existing space, using the same consultancy firm that conducted a similar study at Headquarters. Upon the completion of this study, the project team will be able to define a space efficiency ratio, specific to UNOG and relating to flexible workplace strategies, and determine the possibility of increasing the number of staff accommodated within the Palais des Nations by more than the 25 per cent currently envisaged (ibid., paras. 30-38). **The Advisory Committee notes that a flexible workspace[1] has begun to be implemented in the Organization and that there is in-house expertise to provide advice in this regard. The Committee is therefore of the view that consultants should not be required to study the utilization of existing space at UNOG and recommends against the use of consultancy services in this respect (see A/70/7/Add.45 and A/71/570, para. 30).**

15. Upon enquiry, the Advisory Committee was informed that, as part of lessons learned from the continuing implementation of the flexible workplace strategies project in New York, it was considered essential to await the completion of the space utilization study and the ensuing change management process before making any further projections on possible space efficiency gains. The Committee was also informed that updated information in this regard would be presented to the General Assembly in the next annual progress report on the strategic heritage plan. In this connection, the Committee recalls that the report of the Secretary-General on progress on the implementation of a flexible workplace at Headquarters (A/70/708) and the related report of the Committee (A/70/7/Add.45) are currently before the Assembly (see also A/71/541, para. 21).

2. Measures to eliminate physical, communications and technical barriers to persons with disabilities

16. The Secretary-General indicates that a full indoor accessibility plan was part of the original scope of the project and was included in its design. The Advisory Committee was informed, upon enquiry, that an accessibility master plan, in

[1] See paragraphs 5-8 of the report of the Secretary-General (A/68/387) for definitions of "flexible working arrangements", "flexible workplace", "alternative workplace (or workspace) strategies" and "flexible working".

compliance with the Swiss building codes, had been established at an early stage in the planning and development of the strategic heritage plan to ensure the full accessibility of the Palais des Nations. Pursuant to section X, paragraph 30, of General Assembly resolution 70/248 A, the Secretary-General indicates that a specialist consultancy firm has prepared an implementation plan for outdoor and indoor accessibility that was shared with the strategic heritage plan working group on disability, and the group's feedback has been integrated into the successive design stages. According to the Secretary-General, the outdoor accessibility plan, although not originally included in the project scope, could now be partially included; nevertheless, the Committee was informed that this does not constitute an optimal solution for outdoor accessibility. The Secretary-General indicates that the strategic heritage plan project team participates regularly in meetings held by the Committee on the Rights of Persons with Disabilities and the United Nations Interdepartmental Task Force on Accessibility (A/71/403, paras. 45-48). **The Advisory Committee commends UNOG for the efforts made thus far towards eliminating barriers to persons with disabilities and looks forward to receiving updates in this regard in future progress reports of the Secretary-General.**

Information and communications technology strategy

17. The Secretary-General indicates the steps envisaged for providing the appropriate information and communications technology (ICT) infrastructure in the new and renovated buildings, taking into account the approved ICT strategy. He, in view of the continuous innovations that lead to the evolution of technology, highlights the need to ensure that the ICT equipment delivered to the users at the end of the project is adequate and scalable to evolving elements in the future (ibid., paras. 50-53). Upon enquiry as to the current allocation of the ICT budget between the strategic heritage plan and UNOG, the Advisory Committee was informed that the ICT requirements estimated under the strategic heritage plan budget amounted to $27.8 million and covered such ICT components as fully functional workspaces within the new and existing buildings, including network infrastructure (i.e., the structured cabling system, the core and backbone active network equipment and the Wi-Fi network). The ICT requirements estimated under the UNOG budget amounted to $400,000 for the period 2018-2019 and would cover end-user equipment such as telephones, personal computers and screens and some enhancements to back-office systems. The Committee provides its observations on matters relating to the ICT strategy in its report on that subject.

3. Project schedule

18. The Secretary-General indicates the forthcoming project milestones and in that context summarizes the changes to the project schedule in comparison with the schedule contained in his previous progress report (A/70/394 and Corr.1). The revised schedule is reflected in figure I of his report and includes a comparison with the schedule contained in his previous progress report. The changes indicated are as follows (A/71/403, paras. 55-56):

(a) The construction of the new building has been separated into two contracted work packages: enabling work (site preparation) and construction;

(b) The overall duration of the new building work has been increased by 10 months owing to the further development of the technical design and the more extensive site preparation requirements;

(c) The competitive international tender for the renovation work has been brought forward to mid-2018 (instead of 2019), given that several areas of work have been identified that do not require staff relocations, such as renovations of the conference rooms, the cafeteria and the archives. Those areas of work can therefore be carried out in parallel with the construction work on the new building, which helps to fast-track the project schedule.

19. The Advisory Committee enquired as to the implications of those changes in the schedule of the construction and renovation phases for the overall project schedule and cost. The Committee was informed that more detailed development of the design and implementation strategy, especially regarding the interconnectivity of some building systems from the current Palais des Nations buildings and the new building, had led to the fast-tracking of the project schedule, which had resulted in a lower overall risk of delay to the schedule. The Committee was also informed that, whereas the overall duration of the new building works had increased by 10 months, planning for the renovation work on the current buildings could begin earlier than originally scheduled, during the time when the construction of the new building was planned to be in progress, and that might result in a lower overall risk to the project schedule. The Committee was further informed that the Secretary-General foresaw no adverse financial implications for the overall project cost stemming from the change in schedule. **The Advisory Committee trusts that more information, including on the potential impact on the financing schedule, will be provided to the General Assembly in this regard at the time of its consideration of the report of the Secretary-General.**

20. **With regard to the proposed revisions to the project schedule, the Advisory Committee, drawing upon lessons from the implementation of the capital master plan project, considers that keeping the project on schedule is critical in order to avoid any potential cost overruns and therefore stresses the need for the Steering Committee to ensure continuous monitoring and assurance of the project's progress within the established timeline and budget.**

III. Project costs

A. Changes in the cost plan

21. The Secretary-General indicates that the overall estimated project cost remains unchanged at SwF 836.5 million and provides a revised yearly cost plan based on the completed detailed design. According to the Secretary-General, subsequent to the development of the design work, a higher level of detail with regard to activities and the cost data became available, and the earlier cost plan was revised on the basis of these newly available data (ibid., paras. 57-59 and table 1). In the supplementary information provided to the Advisory Committee, it is indicated that the cost plan reflected in the report of the Secretary-General is based on 2016 prices. The cost plan was confirmed, upon enquiry, to be up to date as at June 2016. In the supplementary information it is also indicated that one of the key elements

reflected in the revised cost plan is the partial absorption of previously projected escalation amounts into the respective areas of the cost plan, which has resulted in an increase in the base cost of new construction and renovation works. The Secretary-General indicates that the practice of absorbing the previously estimated escalation for a particular year into the realized cost of that year will continue to be followed for the duration of the project (ibid., para. 61). Tables 1 and 2 provide the project cost plan proposed by the Secretary-General in his previous and current reports, respectively (A/70/394 and A/71/403). Upon request, the Committee was provided with the changes reflected in the project cost plan in the current report of the Secretary-General in comparison with his previous report, which are shown in table 3.

Table 1

Projected summary cost plan for the strategic heritage plan project from 2014 to 2023, as set out in document A/70/394

(Thousands of Swiss francs)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Construction of new building	–	–	–	43 222.3	57 629.7	9 604.9	–	–	–	–	110 456.9
Renovation work	–	–	–	–	–	93 494.3	81 994.0	32 120.6	86 075.9	58 534.3	352 219.1
Dismantling of seven floors of building E	–	–	–	–	–	–	–	19 721.9	–	–	19 721.9
Associated costs	–	–	560.0	486.2	6 680.7	9 351.8	21 898.1	2 054.9	2 937.0	9 029.6	52 998.3
Consultancy services	12 760.1	23 327.4	25 622.7	7 866.2	10 788.8	9 028.1	8 618.1	7 927.6	6 471.6	5 814.1	118 224.7
Project management	1 212.3	2 942.7	4 355.5	4 315.3	4 335.3	4 349.3	4 365.5	4 335.2	4 335.2	4 335.2	38 881.5
Contingencies	–	1 000.0	2 322.5	12 841.8	17 324.3	17 886.4	13 636.8	7 071.4	11 701.4	8 132.5	91 917.1
Escalation	–	–	231.1	1 670.3	3 811.7	8 128.7	9 508.5	6 480.7	11 791.7	10 457.8	52 080.5
Total	**13 972.4**	**27 270.1**	**33 091.8**	**70 402.2**	**100 570.5**	**151 843.5**	**140 021.0**	**79 712.2**	**123 312.8**	**96 303.5**	**836 500.0**

Table 2

Projected summary cost plan for the strategic heritage plan project from 2014 to 2023, as set out in document A/71/403

(Thousands of Swiss francs)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Construction of new building	–	–	–	31 966	52 611	29 412				–	113 989
Renovation work	–			–	10 301	38 905	138 383	54 887	111 928	4 075	358 478
Dismantling of seven floors of building E	–							10 895	9 080		19 975
Associated costs	–		252	1 537	4 240	11 332	13 205	11 038	9 229	1 727	52 559
Consultancy services	1 705	23 685	36 591	5 577	7 974	5 517	9 065	11 313	11 940	4 858	118 225
Project management	1 268	2 890	4 253	4 628	4 598	4 517	4 518	4 493	4 493	3 223	38 882
Escalation				336	1 638	3 201	8 949	6 601	12 741	1 390	34 857
Subtotal	**2 973**	**26 575**	**41 097**	**44 044**	**81 361**	**92 884**	**174 120**	**99 227**	**159 410**	**15 272**	**736 963**
Contingencies	–	–	1 953	5 797	10 629	15 263	16 531	18 655	21 209	4 170	94 207
Escalation on contingencies	–	–		45	234	568	888	1 334	1 851	410	5 330
Total	**2 973**	**26 575**	**43 050**	**49 886**	**92 223**	**108 715**	**191 539**	**119 216**	**182 470**	**19 853**	**836 500**

Table 3
Changes in project cost plan from document A/70/394 to document A/71/403
(Thousands of Swiss francs)

	2014 to 2016	2017	2018	2019	2020	2021	2022	2023	Total
Construction of new building	—	(11 257)	(5 019)	19 807	—	—	—	—	3 532
Renovation work	—	—	10 301	(54 589)	56 389	22 766	25 852	(54 460)	6 259
Dismantling of seven floors of building E	—	—	—	—	—	(8 827)	9 080	—	253
Associated costs	(308)	1 051	(2 441)	1 980	(8 694)	8 983	6 292	(7 303)	(439)
Consultancy services	271	(2 289)	(2 815)	(3 511)	447	3 386	5 468	(957)	—
Project management	(99)	313	263	168	153	158	158	(1 112)	—
Escalation	(203)	(1 019)	(1 464)	(3 902)	446	757	2 195	(8 069)	(11 259)
Subtotal	**(338)**	**(13 201)**	**(1 176)**	**(40 047)**	**48 741**	**27 223**	**49 044**	**(71 900)**	**(1 655)**
Contingencies	(1 369)	(7 045)	(6 695)	(2 624)	2 894	11 584	9 507	(3 963)	2 289
Escalation on contingencies	(29)	(270)	(476)	(457)	(117)	697	605	(588)	(635)
Total	**(1 736)**	**(20 516)**	**(8 347)**	**(43 128)**	**51 518**	**39 504**	**59 157**	**(76 451)**	—

22. In the supplementary information, the Secretary-General explains the significant changes in the revised cost plan reflected in his current report in comparison with his previous report, as follows:

(a) New permanent building: the cost of the new permanent building is estimated at SwF 113,989,636, excluding contingencies and escalations, an increase of SwF 3,532,000 compared with the estimated cost in the previous report. The increase has resulted from updated costs, the further development of the design and the preparation of tender documents;

(b) Renovation work: the cost of the renovation work is estimated at SwF 358,477,490, excluding contingencies and escalations, an increase of SwF 6,259,000 compared with the estimated cost in the previous report. The revised cost estimates are based on the more detailed design available during the current reporting period. The estimated costs for the renovation work on buildings A, D and S have increased and those for the remaining buildings, B, C and E, have decreased. The estimated provision for the cost of dismantling the top seven floors of building E (SwF 19,974,984, excluding contingencies and escalations) has increased by SwF 253,000;

(c) Escalation: the amount of overall escalation is estimated in the current report of the Secretary-General at SwF 40,187,000 (consisting of estimated escalation for the base project cost in the amount of SwF 34,857,000 and for the project contingency in the amount of SwF 5,330,000), a reduction of SwF 11,893,000 compared with the corresponding estimated escalation reflected in the previous report. The escalation amount is derived by applying the estimated annual escalation

rate[1] as a yearly compounded rate to all cost items for the remaining duration of the project. With each passing year, the duration of the project is reduced by one year and the total projected amount for escalation adjusted accordingly. Here, the project duration for which escalation is estimated is reduced from eight to seven years when compared with the project period considered in the previous report. The annual estimated escalation rate for the project remains unchanged in the current reporting period when compared with that applied in the previous reporting period;

(d) Project contingencies: based on risk analysis, the independent risk management firm estimated the overall probabilistic cost exposure at SwF 98,279,000 for the full duration of the project from 2014 to 2023, against which an overall contingency amount of SwF 94,206,646 (or 95.5 per cent of total identified cost exposure), excluding escalation, is included in the updated cost estimate for the full duration of the project. This compares with an overall probabilistic cost exposure of SwF 129,959,897, estimated in the previous reporting period, against which an overall contingency amount of SwF 91,917,087 (or 70.7 per cent of total identified cost exposure), excluding escalation, was included in the cost estimate for the full duration of the project for that reporting period (the Advisory Committee discusses project contingency in further detail in paras. 26 to 31 below).

23. The Advisory Committee recalls the views of the Board of Auditors that cost estimates for large capital projects should be transparent and open to verification, based on established industry guidelines set by internationally recognized standard-setting bodies and adjusted for local conditions, as necessary. The Committee also recalls its expectation that adjustments made to the project cost estimates on the basis of industry guidelines, if any, will be explained in the future progress reports of the Secretary-General (see A/70/608, para. 15).

24. **The Advisory Committee notes that, in the current report of the Secretary-General, the information regarding adjustments made to the project cost plan, especially in respect of the construction of the new building, the renovation of existing buildings, escalation and project contingencies, is not adequately explained in the update provided by the Secretary-General and requires further details and explanation. The Committee trusts that such additional information will be provided to the General Assembly at the time of its consideration of the report. The Committee further expects the presentation of such information in future progress reports of the Secretary-General to include complete and consolidated information, including justifications in respect of revisions made to specific cost components.**

25. **The Advisory Committee further considers that changes in specific cost estimates should be closely monitored by the project governance mechanisms with a view to ensuring that the overall project cost remains within the approved budget for the strategic heritage plan and trusts that updated information in this regard will be provided in future progress reports.**

[1] The estimated annual escalation rate is based on the official updated historical data provided by the Swiss Federal Statistical Office and future escalation forecasts.

B. Project contingency

26. The Secretary-General indicates that the independent risk management firm continues to review the provision for project contingency on the basis of the quantitative risk assessment and the refinement of the related mitigating actions. According to the Secretary-General, the risk contingency forecast provided by the firm is based on the estimated costs of the current risks and uncertainties relating to the project. Given the likelihood and potential impact of those risks, the firm calculates the recommended level of contingency provision required to complete the full scope of the project and achieve all its identified benefits and objectives (A/71/403, paras. 54 and 60). As indicated in paragraph 22 (d) above, an amount of SwF 94,206,646 is included as the overall contingency provision in the updated cost estimate for the full duration of the project from 2014 to 2023. In the supplementary information provided to the Advisory Committee it is indicated that the contingency amount currently assigned for the forthcoming project years from 2017 to 2023 is SwF 92,253,424, and, should the contingency amount for 2016 not be used until the end of 2016, the contingency provision of SwF 1,953,222 for 2016 would be carried over into 2017 and thus be included in future risk-based contingency assessments.

27. The Advisory Committee recalls that the General Assembly, in section X of its resolution 70/248 A, decided that unused contingency funds might be carried over to subsequent years and reallocated as new risks emerged and older risks were retired, consistent with industry best practice, and that all remaining unused contingency funds were to be returned to Member States at the conclusion of the project. In this regard, the Committee requested an annual breakdown of budgeted and unused contingency amounts from the outset of the project to the present. The Committee was provided with the information on unused contingency amounts as shown in table 4.

Table 4

Proposed budgeted contingency amounts in the reports of the Secretary-General

(Thousands of Swiss francs)

Report	Amount budgeted for year			Amount used	Retained in contingency account at end of reporting year
	2014	2015	2016		
A/68/372 (in 2013)	4 000[a] (contingency and escalation in 2014 and 2015)			—	No risk-based approach yet
A/69/417 and Corr.1 (in 2014)		1 000		—	No risk-based approach yet
A/70/394 and Corr.1 (in 2015)		1 000	2 351	—	1 000
A/71/403 (in 2016)			1 953	—	To be decided[b]

[a] In document A/68/372 an overall amount for contingency and escalation of SwF 4 million was estimated for the biennium 2014-2015. This approach was discontinued in document A/69/417 and Corr.1, when contingencies and escalation were shown separately, thus allowing individual cost tracking of both cost items.

[b] As indicated in table 1 of the second progress report (A/70/394 and Corr.1), contingencies were budgeted in the amount of SwF 1 million for 2015 and SwF 2,351,000 for 2016. No contingencies were spent during 2015, and the projected requirement for contingencies in 2016 also has decreased. Consequently, the Secretary-General presented an updated cost plan in table 1 of the third progress report (A/71/403), which shows the updated projected contingencies requirement for 2016 in the amount of SwF 1,953,000. This represents a decrease of SwF 1,398,000 in contingency requirements from 2014 to 2016, which could be seen as the amount of contingency carried over into the future period of the project.

28. The Advisory Committee was informed that the project contingency provisions presented in the successive progress reports of the Secretary-General were based on updated risk analysis and, in such presentations, the previously assigned but unused contingency amounts became part of the contingency provision reflected in the total cost plan of the project, separated from the base project cost.

29. The Advisory Committee recalls that, in the first progress report of the Secretary-General on the strategic heritage plan (A/69/417 and Corr.1), based on industry standards and the level of the project information available at that time, project contingencies were calculated as percentages of estimated cost components (20 per cent of estimated costs for renovation, associated costs and consultancies and 10 per cent of estimated costs for new construction and the dismantling of the E building office tower). Later, in his second progress report (A/70/394 and Corr.1), the estimation of contingency amounts was refined as follows: 10 per cent for new construction, 18 per cent for renovation and dismantling works, 5 per cent for associated costs and 5 per cent for consultancy fees and related costs. On the basis of this calculation, the overall project contingency amount was established during the concept design phase and, in line with the paper of the Board of Auditors on lessons from the United Nations capital master plan (A/71/5 (Vol. V), annex I), the available project contingency amount was allocated through a robust risk analysis process. The allocated project contingency amount represented 70.7 per cent of the overall project contingency amounts determined through the risk analysis process (see para. 21 above and A/70/7/Add.8, paras. 41-42). In the current report of the Secretary-General, the estimated project contingency amount for the full duration of the project equals 95.5 per cent of the total cost exposure identified by the risk management firm (see para. 22 above).

30. **The Advisory Committee notes that the basis for estimating project contingency amounts has been evolving from the beginning of the planning and development stages of the strategic heritage plan project and the overall project contingency amounts estimated for the project and the annual allocations have varied in each successive progress report of the Secretary-General. The Committee also notes that, in his most recent report, the Secretary-General has based the estimated project contingency amount on quantitative risk assessment in line with industry best practice and, in this respect, the Committee is of the view that, as the project moves forward, a consistent approach to estimating the project contingency amounts is required to ensure full accountability and transparency.**

31. **The Advisory Committee further notes that, thus far, no use of the estimated project contingency amounts has been reported by the Secretary-General and considers that, in view of the provisions of section X of General Assembly resolution 70/248 A regarding unused contingency funds, a year-by-year account of budgeted, used and carried-forward project contingency amounts needs to be clearly presented in future progress reports of the Secretary-General.**

IV. Project financing

A. Host country loan agreement

32. Pursuant to section X of resolution 70/248 A, in which the General Assembly welcomed the loan package offered by the Government of Switzerland, approved the financing of the project in part through a loan at a zero interest rate from the host country and authorized the Secretary-General to formally apply for the loan in the amount of SwF 400 million, the Secretary-General formally applied for the loan from the host country in January 2016. In this regard, the Advisory Committee was informed that the loan had been approved in September 2016. The Secretary-General indicates that part of the loan, repayable over 50 years, would cover the eligible costs of the new construction work during the period 2017-2019, namely construction and consultancy service costs, which were estimated at SwF 125.1 million, including escalation. The remainder of the loan, in the amount of SwF 274.9 million and repayable over 30 years, would be used for eligible costs of the renovation work, namely construction and consultancy service costs, including escalation (A/71/403, paras. 63-65 and table 3).

B. Appropriation and assessment

33. The General Assembly, in section X of its resolution 70/248 A, decided to revert to the establishment of an assessment scheme and currency of appropriation and assessment for the strategic heritage plan at the main part of its seventy-first session and requested the Secretary-General to provide updated detailed information on those issues. In this respect, the Secretary-General indicates that part of the project cost, amounting to SwF 360.3 million, is not covered by the loan amount and is to be financed by Member States separately from the repayment of the loan. This amount

comprises part of the construction cost of the new building (SwF 3.9 million), part of the renovation cost of the existing buildings (SwF 175.0 million) and associated costs, contingencies and project management costs (SwF 184.9 million). The Secretary-General also indicates that the amounts to be funded from Member State contributions would be reduced by any voluntary contributions received towards elements within the scope of the project, as well as other realized income (ibid., paras. 68-69) (see paras. 47-48 below).

34. The Advisory Committee was informed, upon enquiry, that, as a result of the revised updated cost plan, the estimated resource requirements for the construction of the new building, including escalation, had increased by SwF 3.9 million compared with the corresponding projection made in the previous report. The Committee was also informed that the loan amount for the construction of the new building was time-bound and to be applied to costs incurred specifically in 2017, 2018 and 2019. Consequently, costs incurred or accrued for consultancy services related to the new building from 2014 to 2016 were required to be covered by Member State assessments, and other costs such as consultancy services relating to defects, liabilities and quality control that might accrue after the completion of the construction work would also have to be financed by such assessments. **The Advisory Committee notes with concern that the cost estimate for the construction of the new building has undergone an upward revision, resulting in the loan amount not covering the full cost of construction. Given that the loan is time-bound, the Committee further notes the importance of strict adherence to the approved project schedule and stresses that the project governance mechanisms should make every effort to avoid any slippage in the project schedule, cost overruns and the requirement for possible additional funding.**

1. Scheme of appropriation and assessment

35. The Secretary-General proposes three options for appropriation and assessment in relation to the financing of the project and discusses their relative merits and benefits (A/71/403, paras. 70-80, figs. II to IV and annex I). The options are as follows: a one-time up-front appropriation and assessment; multi-year appropriation and assessment; and a one-time up-front appropriation, with a mix of one-time and multi-year assessments. **The Advisory Committee reiterates its view that the options mentioned above constitute a policy matter to be decided upon by the General Assembly (see A/70/7/Add.8, para. 66) (see also para. 40 below).**

2. Currency of appropriation and assessment

36. The Secretary-General proposes two options in respect of the currency of appropriation and assessment: United States dollars and Swiss francs (A/71/403, paras. 81-86). **The Advisory Committee reiterates its view that the options for the currency of appropriation and assessment constitute a policy matter to be decided upon by the General Assembly (see A/70/7/Add.8, para. 68).**

C. Negative interest rates

37. The Secretary-General indicates that, subsequent to the discussions between UNOG and the Swiss-based banking partners of the United Nations, it is anticipated that the risks relating to negative interest rates might be mitigated through cash flow

management and negotiation of the threshold level. According to the Secretary-General, such a measure would mitigate the risk of negative interest rates being applied to the Organization's currency holdings, in particular under the option of yearly appropriation and assessment, and in respect of loan payments, through the disbursement of funds in several varying instalments throughout each year to match the specific cash-flow requirements of the project (A/71/403, para. 87). The Advisory Committee recalls that the Secretary-General had indicated in his previous report that holdings in Swiss francs above a certain threshold (usually SwF 10 million) were subject to negative interest rates in accordance with the monetary policy of the Swiss National Bank and that the United Nations was not exempt from such charges (see A/70/394, para. 107). The Committee was informed, upon enquiry, that there had been no change with regard to the monetary policy and, thus far, the Organization had paid SwF 36 and SwF 174 during the first and third quarters of 2016 (see also A/70/7/Add.8, para. 69).

38. The Advisory Committee recalls that the General Assembly, in section X of its resolution 70/248 A, requested the Secretary-General, in the context of his next progress report, to include detailed information on possible measures that could be taken to avoid negative interest rates being applied to the currency holdings of the United Nations. Upon enquiry, the Committee was informed that UNOG had negotiated with the commercial banks that currently held its deposits a higher threshold level for deposits, above which those banks would pass on the negative charges to the United Nations, provided that the deposits were short term in nature and no additional changes were made by the Swiss National Bank in that regard. The Committee was also informed about the steps taken by other entities of the United Nations towards managing negative interest rates, which included negotiating with commercial banks for a higher threshold, above which negative interest rates would be applied, opening multiple bank accounts and negotiating a higher limit for each account and entering into a package deal with the commercial banks, the terms of which would allow the Organization to maintain a certain volume of investments that could be bundled with deposit accounts. The Committee recalls that it considered that the holdings of the United Nations for the strategic heritage plan project should not be subject to negative interest rates and expected every effort to be made by the Secretary-General to avoid losses to the Organization (see A/70/7/Add.8, para. 70). **The Advisory Committee considers that the Secretary-General should intensify his efforts to avoid negative interest charges being applied to the Organization's currency holdings.**

D. Multi-year special account

39. The Secretary-General continues to propose a multi-year special account for the duration of the project until 2023, after which the project finances would be included in the programme budget for the relevant periods (A/71/403, paras. 88-90). The Advisory Committee recalls that the General Assembly, in section X of its resolution 70/248 A, decided to revert to the establishment of the multi-year special account at the main part of its seventy-first session. **The Advisory Committee reiterates that it recommends the establishment of a multi-year special account for the strategic heritage plan (see A/70/7/Add.8, para. 71).**

E. Cash-flow risk

40. As mentioned in paragraph 35 above, the Secretary-General has proposed multi-year appropriations and assessments as an option for the scheme of appropriations and assessments to be considered by the General Assembly. He indicates that some cash-flow risk is inherent in this specific option, while the other two options proposed by him (a one-time up-front appropriation and assessment and a one-time up-front appropriation, with a mix of one-time and multi-year assessments) provide for the capacity to respond to cash-flow requirements that may arise in the implementation of the project. The Secretary-General proposes that, should the Assembly decide on the establishment of a multi-year special account for the project, the strategic heritage plan be granted access to the working capital fund of the programme budget established under financial regulation 4.2 and to the special account to mitigate the risks inherent in the option for multi-year appropriations and assessments (A/71/403, paras. 91-92). **The Advisory Committee is of the view that, at this stage, pending a decision of the General Assembly on the scheme of appropriation and assessment, its consideration of a mitigating measure for a possible cash-flow risk is not needed.**

F. Alternative funding opportunities

1. Valorization of United Nations-owned land

41. The General Assembly, in section X of its resolution 70/248 A, reiterated the importance of ensuring that alternative funding mechanisms were factored into the overall financing scheme in order to reduce the assessments of Member States and requested the Secretary-General to provide detailed information in his next progress report on the next steps towards identifying additional sources of income through, among other things, the valorization at market price of land owned or occupied by UNOG, including but not limited to that currently occupied by the Club international de tennis, the Fondation de l'École internationale de Genève and the Parc des Feuillantines. In this respect, the Secretary-General indicates that, to identify the realizable valorization potential of viable plots of land from among the 12 parcels of land owned or operated by UNOG, a comprehensive independent valorization study was undertaken through a consultancy company. Six parcels of land were determined to have valorization potential: those currently housing the United Nations Training Centre, the Club international de tennis, the Fondation de l'École internationale de Genève and the Parc des Feuillantines (ibid., paras. 93-115). A table showing plots of land owned or occupied by the United Nations and their current status was provided to the Advisory Committee, upon its request, and is annexed to the present report.

42. On the basis of the independent valorization study, the Secretary-General indicates that the existing real estate portfolio could yield additional income for the Organization through the long-term leasing of land, should investment be made by the Organization in additional up-front development activities. He also indicates that such income could be realized during the coming 5 to 10 years and, if approved by the General Assembly, be used to reduce appropriation and assessed contributions from Member States to fund the strategic heritage plan project (ibid., para. 116).

Valorization team

43. The Secretary-General highlights that the planning and implementation of the possible valorization strategies do not lie within either the core mission or the competency of the United Nations, and no precedents for such real estate transactions exist within the Secretariat (ibid., para. 117). He indicates that the implementation of valorization strategies would require access to relevant subject-matter expertise and the significant investment of time and financial resources by the Organization. In this respect, he proposes the establishment of a dedicated valorization team consisting of a Project Coordinator (P-4) and an Administrative Assistant (General Service (Other level)), to be supported by specialist consultancy firms in the areas of real estate advisory services, architectural design and planning services and legal services. According to the Secretary-General, the team will be required for an initial period of three years, beginning on 1 January 2017. The annual cost for the team is estimated at $641,600, and is proposed to be financed initially from the rental income of UNOG (currently $1.2 million per year) and subsequently from income generated by the valorization of land (ibid., paras. 118-119 and table 4).

44. The Advisory Committee was informed, upon enquiry, that the above-mentioned valorization strategies had been developed with the involvement of the Director-General of UNOG, the Director of Administration of UNOG, senior management within the project team, senior officers from UNOG and the Office of Legal Affairs, and the leadership of the Office of Central Support Services and the Office of Programme Planning, Budget and Accounts in New York. To continue with the further development and implementation of such strategies, dedicated resources and expertise would be required to carry out relevant detailed and time-consuming tasks, which would entail effective collaboration throughout the Organization in respect of legal, financial, procurement and strategic real estate matters, in both Geneva and New York. The Committee was also informed that keeping the strategic heritage plan project within the approved schedule and budget required the full dedication of the plan project team and, as such, deploying staff members from that team for tasks relating to valorization would prove counterproductive. The Committee was further informed that neither UNOG nor Headquarters currently had the capacity to perform the valorization-related tasks.

45. **The Advisory Committee notes the constraints expressed by the Secretary-General, in particular the absence of prior experience within the Organization in terms of developing plans for and coordinating the implementation of feasible valorization projects. The Committee nevertheless recommends against the establishment of a dedicated valorization team to carry out such tasks. Instead, the Committee recommends the use of expert consultancy services for this purpose, to be funded under section 29 of the programme budget.**

Club international de tennis

46. On a related matter, the Secretary-General indicates that a part of one of the parcels of land owned by UNOG is currently leased to the Club international de tennis and that the buildings and grounds therein were built and are maintained by it. The lease contract expired at the end of 2015 and was extended for a subsequent period of a year. The Secretary-General also indicates that, early in 2016, the new presidency of the Club informed UNOG of its intention to legally challenge the

decision not to renew the lease on a long-term basis (ibid., paras. 103-104). Upon enquiry, the Advisory Committee was informed that an interim arrangement was being devised to avoid costly arbitration for both sides. **The Advisory Committee is of the view that the challenging of the lease agreement is not justified and trusts that the interim arrangement will reflect the current market value of the land area occupied by the Club international de tennis, keeping in view the best interests of the Organization.**

2. Donations

47. The General Assembly, in section X of its resolution 70/248 A, approved the donation policy as described in the report of the Secretary-General (A/70/394 and Corr.1), subject to the observations of the Advisory Committee in paragraphs 35 and 36 of its report (A/70/7/Add.8). In his current report, the Secretary-General provides updated information on the implementation of the policy and indicates that the policy covers any voluntary contribution to UNOG that will assist in achieving the overall objectives of the project, offsetting costs and/or enhancing the infrastructure of the Palais des Nations beyond the scope of the plan (A/71/403, paras. 120-122). Upon enquiry, the Committee was informed that the policy had been amended to reflect the observations of the Committee, as approved by the Assembly.

48. The Advisory Committee recalls that the General Assembly, in section X of its resolution 70/248 A, requested the Secretary-General to remain proactive in seeking both voluntary and in-kind contributions from Member States, as well as donations by private entities, in full compliance with all relevant rules and regulations of the Organization, in order to reduce the overall assessments on Member States. The Secretary-General provides an account of the donations received in the context of the strategic heritage plan and indicates that they were received on the understanding that they would be used for specific purposes, such as renovating conference rooms, enhancing energy efficiency and upgrading and repurposing villas and other historical features on the grounds of the Palais des Nations (ibid., para. 122). **The Advisory Committee welcomes the donations made in the context of the implementation of the strategic heritage plan and trusts that all donations and related reductions in assessments, if any, will continue to be reported in future progress reports of the Secretary-General.**

3. Rental income

49. The Secretary-General indicates that the annual income from the rental of premises at UNOG is currently $1.2 million and that, subsequent to the anticipated relocation of 700 staff members of the Office of the United Nations High Commissioner for Human Rights (OHCHR) to the Palais des Nations at the end of the strategic heritage plan project, additional rental income, corresponding to the current rental expenditure for those staff members whose positions are funded from extrabudgetary sources, will become available (ibid., paras. 133-134). The Advisory Committee was informed, upon enquiry, that, subsequent to the relocation of the OHCHR staff from Palais Wilson and the Giuseppe Motta building to the Palais des Nations, part of the regular and auxiliary maintenance costs, currently undertaken by the respective landlords, would have to be financed from the regular budget, but were not readily quantifiable at that time. The Committee recalls that the Secretary-General had indicated that the annual cost of rent, maintenance and the provision of

safety and security at the leased facilities for OHCHR staff members at Palais Wilson and the Giuseppe Motta building was approximately SwF 9 million. As a result of the move of those staff members to the Palais des Nations, the anticipated occupancy by the staff members funded from the regular budget would lead to reduced requirements for rent under section 29 F, Administration, Geneva, and for security under section 34, Safety and security, of the programme budget, and the anticipated occupancy by the staff members funded from extrabudgetary resources would lead to an increase in rental income under income section 2, General income. However, the changes in the level of resources under the three sections of the programme budget would be known only after the completion of the project, taking into account the prevailing rental rates and the actual number of additional occupants under each of the funding sources. The Secretary-General had also indicated the increase under income section 2 could be applied towards the repayment of the loan after the completion of the project, should the offer of the loan be accepted. **The Committee reiterates its view that the General Assembly may wish to request the Secretary-General to propose ways of factoring future rental income into the overall scheme of financing of the strategic heritage plan project in his next progress report (see A/70/7/Add.8, paras. 75-77).**

V. Other considerations

A. Security considerations

50. The Secretary-General indicates that the project team has coordinated security requirements for the project with relevant stakeholders, including the Security and Safety Section of UNOG and the Department of Safety and Security at Headquarters and host country authorities, throughout the project (A/71/403, para. 143). The Advisory Committee recalls that the Secretary-General had drawn upon two categories of lessons learned from the capital master plan concerning security: physical perimeter security and operational security. Concerning perimeter security, the Secretary-General had indicated that the strategic heritage plan project had taken into account related issues and avoided risks. Concerning operational security, it was indicated that additional security officers would not be required, given that the staff at UNOG would be located in swing space at the existing campus (see A/68/585, para. 72). In his current report, the Secretary-General indicates that the security threat level in the host country was upgraded in July 2016, and accordingly, the Office, in close liaison with the Department of Safety and Security, is actively engaged in developing a security master plan for the compound. He also indicates that Member States will be informed about the outcome of this exercise in due course (A/71/403, para. 145). **The Advisory Committee recommends that the General Assembly request the Secretary-General to provide security-related assessments no later than at the seventy-third session of the Assembly.**

B. Contracting strategy and lessons learned

51. The Secretary-General provides information on the contracting strategies for the two phases of the project, comprising a single construction phase for the new permanent building and a single renovation phase for the existing buildings, in

paragraphs 135 to 142 of his report. According to the Secretary-General, the delivery method for the contract for the construction of the new building will continue to follow the traditional design-bid-build approach, in which all design elements will be fully completed before the issuance of a construction tender, and this approach is expected to provide for a greater level of price certainty at the time of contract award compared with other possible methods. He also indicates that the delivery method for the renovation part of the project will follow an engineer-and-construct approach, which allows the contractor to complete key technical elements of the final engineering design before the commencement of construction work. According to the Secretary-General, in view of the lessons learned from the capital master plan, this approach is intended to minimize the extent and number of construction change orders relating to the design by assigning singular responsibility to the contractor for verifying and completing the final engineering design and measuring field conditions. The Advisory Committee was informed, upon enquiry, that the engineer-and-construct approach had led to lower contingency amounts estimated on the basis of risk assessments and, as the project progressed, would contribute to minimizing a number of previously identified risks to the project in terms of both cost and time. The Committee recalls the views of the Board of Auditors that the application of lessons from the implementation of construction and renovation projects of the Organization is not an end in itself and should not be reduced to mere procedural compliance. The true value of the lessons would lie in how effectively they are actually used to monitor the execution of the project, which would be evident only as the implementation progresses (see A/70/569, para. 18).

52. The Advisory Committee also recalls that the General Assembly, in section X of its resolution 70/248 A, endorsed the Committee's recommendation to request the Secretary-General to continue to identify lessons learned, taking into account best practice recommendations compiled by the Board, and to provide updated information on their application in the context of the next progress report. **The Advisory Committee therefore expects that the strategic heritage plan project will continue to draw lessons from the implementation of other capital projects of the Organization, especially in the areas of procurement and contracting and monitoring of timelines for specific project activities and costs, and integrate such lessons into the implementation of the project. The Committee looks forward to receiving relevant information in this regard in future progress reports of the Secretary-General.**

VI. Conclusions and recommendations

53. The actions requested of the General Assembly are set out in paragraph 149 of the report of the Secretary-General. **Subject to its comments and recommendations in the above paragraphs, the Advisory Committee recommends that the General Assembly:**

(a) Take note of the report of the Secretary-General and the progress made since the issuance of the second annual progress report of the Secretary-General (A/70/394 and Corr.1);

(b) Approve the establishment of a multi-year special account for the project;

(c) Approve the establishment of one new position of Procurement Officer (P-4), effective 1 January 2017.

54. The Advisory Committee reiterates its view that the scheme and currency of appropriation and related assessment for the strategic heritage plan constitute policy matters to be decided upon by the General Assembly.

55. Pending a decision of the General Assembly on the scheme and currency of appropriation and related assessment for the strategic heritage plan, as well as on the establishment of a multi-year special account for the project, the Advisory Committee does not provide any specific recommendation regarding the approval of authorization for the strategic heritage plan to access the working capital fund established under financial regulation 4.2 and the special account.

56. The Advisory Committee recommends against the approval of the establishment of a dedicated valorization team to develop plans for and coordinate the implementation of feasible valorization projects. Instead, the Committee recommends the use of expert consultancy services for this purpose, to be funded under section 29 of the programme budget.

Annex

Plots of land owned or occupied by the United Nations Office at Geneva

A. Parcels with no realistic valorization potential

Parcel	*Approximate area (m²)*	*Description of current use and status*	*Current lease arrangements*	*Expiry date of current lease arrangements*	*Estimated land valorization potential*
5220	247,622	Parc de l'Ariana. This is owned by the Canton of Geneva and the territory is governed by the Agreement between the United Nations and the Swiss Confederation on the Ariana Site, of 1946, with all usage rights held by the United Nations. The Palais des Nations is located on this plot. Within the buildings of the Palais des Nations, a number of occupants have leases, including about 30 funds, agencies and other organizations, several commercial entities (bank, post office, travel agency, bookshop, caterer, etc.) and more than 40 journalists and media-related organizations. The size of the spaces leased range from some 600 m² to 8 m².	Numerous leases of floor space	Various arrangements depending on nature of entity	None
2071	53,403	Parcel of historic parkland within the United Nations security perimeter on which a part of building E sits, as do Villa La Pelouse and its annex. It is therefore undevelopable.			
2100	4,428	United Nations beach. This is located in a green zone on the lakeshore. Construction is prohibited unless in the public interest.			
243	17,949	Parc Moynier. This is a lakeside public park governed by the Agreement between the United Nations and the Swiss Confederation on the Ariana Site, of 1946. All usage rights lie with the Canton of Geneva (in return, the United Nations has full usage rights of the Parc de l'Ariana, on which the Palais des Nations is located).	Not applicable		
244	48,736	Parc de La Perle du lac. This is a lakeside public park, governed by the Agreement between the United Nations and the Swiss Confederation on the Ariana Site, of 1946 (just as plot No. 243).			
2072	152	This is a small parcel of land adjacent to a major railway and the Parc de l'Ariana, including a tunnel under the railway. The plot is too small to realistically develop and is surrounded by undevelopable land.			

B. Parcels with realistic valorization potential

Parcel	Approximate area (m²)	Description of current use and status	Current lease arrangements	Expiry date of current lease arrangements	Estimated land valorization potential
434	17,698	Area 1 — Club international de tennis (13,908 m² — leased on a 10-year lease from the end of 2005)	SwF 15,000 per annum[a]	Lease expired at the end of 2015 and extended for a year until the end of 2016. Currently in dispute.	Very high, in conjunction with part of plot No. 435, area 2, below
		Area 2 — École internationale de Genève (3,790 m² — leased since 1977 and used as a school football pitch). Its income is included under plot No. 435 below.	Leased for SwF 75,000 per annum[a]	2017, after which it will increase to SwF 100,000 per annum until 2019	Limited
435	68,623	Area 1 — École internationale de Genève (7,782 m² — leased since 1969 and on which a primary school building has been constructed and is maintained)			
		Area 2 — 7,315 m² part of the plot that is within the existing development zone 4 (immediate construction potential)	None	Not applicable	Included above in plot No. 434, area 1
		Area 3 — 45,585 m² — Villa La Fenêtre and remainder of park. The new building is to be partially located on this plot, meaning, potentially, only the villa could be leased in the long term with some surrounding land. The security stand-off distance can be resolved if a reconstruction of the United Nations security perimeter is necessary.	One-year lease of office space to non-Secretariat entity at United Nations Office at Geneva standard rate (144 m² — $93,804)[a]	May 2017	Moderate

Parcel	Approximate area (m²)	Description of current use and status	Current land encumbrance	Expiry date of current land encumbrance	Estimated land valorization potential
2009	11,600	United Nations Training Centre — This is in constant day-to-day use by the United Nations and sister organizations. Its valorization potential could be realized through the development of a replacement training centre building (the existing one is near the end of its life and not within the scope of the strategic heritage plan). Other possibilities could be added, such as office space. This site is considered a strategic asset and therefore should not be disposed of.	None	Not applicable	Moderate
2005	17,421	Parc des Feuillantines — parkland forest designated as a green zone, adjacent to plot No. 2079			High
2079		Villa Les Feuillantines — A nineteenth-century villa and its garden, which currently houses some United Nations security staff and the Office of the United Nations Ombudsman and Mediation Services. The United Nations Women's Guild also uses some rooms in the attic. These users are to be relocated to the Palais des Nations.			
2080		Parc des Feuillantines — A small area of parkland designated as a green zone, adjacent to plot No. 2005			

[a] Included within net income of $1.2 million per annum, reported under income section 2, for the biennium 2016-2017.